

Family business governance in a crisis: building resilience and driving recovery

Jeremy Franks: Welcome to the fourth podcast in our series Family Wealth and Family Business Governance in a Crisis, in which we explore the impact of the current COVID-19 crisis on family businesses, and in particular the relationship between families and their family businesses. In our podcast today, we're going to review some of the key governance lessons from the COVID-19 crisis to date and take a look at how families and family businesses have been responding. We are recording the podcast from our homes, so apologies in advance for any background noises. My name is Jeremy Franks, I'm the Head of Wealth Planning and Advisory for Europe, Middle East, and Africa. And, once again, I'm joined by my colleague Russell Prior, who leads our family governance, family enterprise succession, and philanthropy services across EMEA. Welcome, Russell.

Russell Prior: Hi Jeremy, good to be with you again.

Jeremy: Great to have you here. So, Russell, what are some of the key issues that you've been seeing family businesses encounter, particularly during the current lockdown?

Russell: Clearly the biggest impact of COVID-19 has been on the trading performances of businesses. For some businesses there's been a truly significant collapse in activity, but on the other hand, for many other businesses we've seen phenomenal success. And between those two poles, we've seen a variety of businesses suffering mixed fortunes. What has been really impressive, though, I think, has been the way that many businesses have reacted, whether that be looking at their business models, how they can adapt for what's been going on, new channels, new ways to market, greater use of technology is another factor, or even a focus on what else they can do to help in response to the COVID-19 crisis.

For those that have faced difficulties, of course the impact has been severe. Not just existential issues for the businesses themselves and their owners, but really difficult decisions regarding staff, suppliers, and customers and, of course, an impact on the communities where the businesses are based.

But, as you said at the beginning, Jeremy, the impact of COVID has also been felt by families and individuals, not just in the businesses, and so at a personal level as well. What are the impacts you've been seeing at the individual and family level?

Jeremy: As you mentioned, some businesses have thrived in the current environment, but others, many, have struggled. So, there's been a huge impact on many family business owner's wealth. I think perhaps an even more significant area of impact has been at the individual level. I think many family business owners have struggled with stress and anxiety. I think part of the reason for that is the fact that it's very difficult for many family business owners to separate the personal and the business, because they invest so much personal and emotional capital into the family businesses. And I think also, the current crisis has brought into sharp focus people's mortality and succession planning, and that I think – also – leads into the comments you made before about stress and anxiety. And looking forward, I think many family business owners are asking the question of who's going to pay for the COVID-19 crisis. And, inevitably, I think that's going to lead to changes in the

tax environment and, therefore, asking what does this mean for their personal wealth and their businesses.

Russell: So, what are you seeing business owners do and think in the face of that question?

Jeremy: Government debt stands at over two trillion pounds, I believe. I think the public sector borrowing requirement for 2020 is likely to come in over 400 billion. So, in that context, there's likely to be significant tax change or tax volatility in the coming years. So, to address your question directly, I think many family business owners, entrepreneurs, are keeping a watching brief on potential tax changes and are considering what some of the, perhaps, the muted changes might mean for them personally and for their businesses.

So, Russell, you've covered some of the business impacts, but what about the governance impacts?

Russell: Good question, Jeremy, it links to the point I think you were making about some of the stresses that are being felt. If we think back to previous crises, the issue has been around leadership. Is there clear leadership? I think this time we've seen COVID testing not just leadership but also governance. And some of the issues that we've seen tested allude to that point you were making about this issue of the division between the business and the individual. So, a couple of examples, we've seen big questions being asked within families – behind family-owned businesses, is there unity around the long-term vision and values? Many of these family-owned businesses have been in place for a long time, but what we've seen COVID do is to bring real pressure on the long-term existence of some of these businesses in some cases, unlike in other previous crises. And that's caused people to really question the long-term vision. I guess another point which flows from that is, are all of the stakeholders involved and informed? So, in a typical family-owned business you'll have family members working in the business, owning shares in the business. You'll have family members who aren't in the business but perhaps have a different attachment, and, of course, you'll have non-family members working in the business. So, three, just by way of that example, three stakeholder groups, each of whom will have different interests. How are they being involved and how are they being informed about what's going on and the decisions that need to be taken?

Flowing from that, I think the financial implications – are they well-articulated? Are they understood? Are the priorities clear for moving forward? And then the final thing I think we've seen is around the quality of communication. In the governance arrangements that are in place, I think this crisis has seen truly massive decisions needing to be taken, under, firstly, extreme time pressure, secondly, we know resources are often scarce. I've alluded to the point about competing agendas, and I guess when you look at all of that, what we see is that the bottom line is that there are only difficult choices to be made under extreme pressure. So again, let me pose the same question back to you, Jeremy. I've talked about some of the stresses in the business, in the business level. What about some of the governance issues at the personal level?

Jeremy: I think there's been many really productive conversations within families addressing sensitive issues around the transfer of wealth to the next generation, but also the control of family assets. I think the crisis has, I alluded to earlier, brought into sharp focus people's mortality and also the importance of long-term planning. So, I think a lot of conversations, which perhaps historically have been put off, have been had certainly during the current crisis. So practically, how's that manifested itself? So, we've seen, let's say, a growing trend of clients, particularly family business owners, reviewing their wills to ensure that they are updated and take into account, perhaps, changing personal circumstances or business circumstances. We've certainly seen a trend of what I would describe as interposing boundaries between the business and personal wealth. I think it would be fair to say that many family businesses perhaps have historically used the family trade company as a vehicle for holding non-business wealth as well as the business. And I think the current crisis has perhaps brought into sharp focus the wisdom of perhaps

separating that out. And to that end, we're certainly seeing, let's say, a growth in structures being used by clients to separate out family wealth and the business wealth. I would also perhaps make the point as well that we're seeing a lot of family businesses, those in particular which have thrived in the current crisis, really consider the impact that they have on the communities that they serve and operate in. And so, to that end, we're certainly seeing a growing trend, which I know you've personally been involved with, Russell, of philanthropy by many family business owners and family businesses to support those who are struggling in the current crisis.

Russell: Absolutely, Jeremy.

Jeremy: I was just going to ask a quick question before we wrap up. Looking forward, what do you see as some of the key governance challenges and opportunities? Because, clearly, out of the current crisis I think there will be many positive opportunities.

Russell: I guess in governance terms, I see several issues as we move forward. I think a lot of family business owners are looking at and updating their governance and leadership frameworks, including the issue of succession. I think they are looking at succession through a very different lens. I think we're seeing them look hard at the longer-term goals and objectives, either affirming or resetting those goals and objectives because, as we've seen, COVID has caused some fundamental rethinks that need to be embedded. I think looking forward more positively, there is the issue of what does recovery look like? Is the recovery going to be more focused on rebuilding resilience or is it going to be targeting further improved performance? I think if we look back traditionally at family-owned businesses, they have tended to be fairly frugal through both good times and bad. For instance, carrying lower debt levels, perhaps not making investments or acquisitions as aggressively as non-family businesses. But I think as we look at moving forward, at that question of what are we building for, is it about resilience or performance, will be a really interesting one. Because, we've seen some of those that have done well through diversification or innovation actually moving into some really new and interesting areas that we've seen, and you said and I've alluded to, some businesses performing really strongly. And I think there will be many opportunities. And again, the macroeconomic environment post-crisis will throw up some really exciting opportunities. Yes, there will be some businesses that will struggle at times, won't be as good necessarily, but I think there will be many new opportunities and I think businesses will be really well placed, those that have done well, to pursue those opportunities. So, when I look at the governance challenges, I think it is that balance between dealing with what's happened in the crisis and making good, but also looking forward with real energy and excitement to the opportunities ahead of us.

Jeremy: I completely agree, Russell. I think many families and family businesses will come out of the lockdown and the crisis well positioned to take advantage of the opportunities that undoubtedly will present themselves. I think it's probably an opportune moment to bring today's podcast to a close. I think we've covered some really important points, from the importance of good governance in both the personal and business context to the importance of, I think, taking the opportunity to drive forward actions that have, perhaps, been previously put off. Russell, many thanks for sharing your thoughts and insights with our listeners today. To our listeners, really appreciate you joining us for this conversation. I hope you've enjoyed it and found it thought-provoking. Keep well and goodbye.